LEO Electron Microscopy Limited

Statutory accounts for the six month period ended 30 September 2001
together with directors' and auditors' reports

Registered number: 3053545

Directors & Advisors

Directors
Dr D Stenkamp (Chairman)
N Brodrick
R J Yoder

Secretary
R J Yoder

Registered Office
Clifton Road
Cambridge
CB1 3QH

Auditors
Deloitte & Touche
Chartered Accountants
Cambridge

Directors' Report

For the six months ended 30 September 2001

These accounts cover a six month period to facilitate a change in accounting date to 30th September each year.

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report for the period ended 30 September, 2001.

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity

The principal activity of the company comprises the manufacture, sale and service of electron microscopes and related components and assemblies.

Business review

During the period, the company continued to build on the recent success of its product range, launched two years previously. The continued successful acceptance of this product range in the market, combined with overall market growth for the full range of the company's products, contributed to a sustained financial performance over the half year.

The directors expect the general level of the company's trading activities to hold steady and are confident concerning the company's future prospects. They acknowledge there may be a general downturn in the market following the events of September 11th. They continue with the investment in product innovation and their adoption of measures aimed at continued strengthening of the competitive position of the company within its markets.

The company is committed to maintaining its significant research and development activities which have resulted in the introduction of significant new products recently as well as in the overall enhancements to existing products. Research and development projects currently exist within all product areas.

Directors' Report (continued)

Results and dividends

The profit for the period, after taxation, amounted to £1,493,000 (2000: loss of £116,000).
No preference dividend has been accrued (2000: £150,000 representing 6p per preference share).
On 1 April 2001, the directors resolved to declare the payment of a preferential dividend on the preference shares amounting to £825,000, the full amount of the accumulated but unpaid dividends arising on the preference shares as of 31 March 2001 (See note 8).

Directors

The directors of the company at the date of the signing of the accounts are listed on page 2.
Dr H Gerlinger, Dr D Kurz, and D Schoch became directors on 1 April 2001 until their resignations on 17 December 2001.
V P Assini and J Koetter resigned office on 1 April 2001.
N Brodrick and R J Yoder became directors on 17 December 2001.
The directors had no interests in the share capital of the company or fellow group companies.

Auditors

Deloitte & Touche were appointed to fill a casual vacancy during the year.

Clifton Road
Cambridge
CB1 3QH

30 October 2002

By order of the Board

K M Phillips
Company Secretary

Independent Auditors' Report to the members of LEO Electron Microscopy Ltd

We have audited the statutory accounts of LEO Electron Microscopy Limited for the six month period ended 30 September 2001 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 23. These statutory accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the statutory accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the statutory accounts in accordance with relevant legal and regulatory requirements, and United Kingdom auditing standards.

We report to you our opinion as to whether the statutory accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the statutory accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other related parties is not disclosed.

We read the directors' report and the other information contained in the annual report for the period and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statutory accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the statutory accounts and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statutory accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the statutory accounts.

Opinion

In our opinion the statutory accounts give a true and fair view of the state of affairs of the company as at 30 September 2001 and of the profit for the six months then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Cambridge

30 October 2002

Profit and Loss Account

	Notes	Six month period ended 30 September 2001	Year ended 31 March 2001
		£'000	£'000
Turnover	2	9,007	15,830
Operating costs	3	(7,189)	(15,464)
Operating Profit		1,818	366
Income from shares in group undertakings		312	-
Profit on ordinary activities before taxation and interest		2,130	366
Net interest payable	6	(146)	(501)
Profit (Loss) on ordinary activities before taxation		1,984	(135)
Tax on profit (loss) on ordinary activities	7	(491)	19
Profit (Loss) on ordinary activities after taxation	19	1,493	(116)
Preference dividend payable on non-equity shares	8	-	(150)
Retained profit (loss) for the period		1,493	(266)

All amounts relate to continuing activities.

There were no gains or losses recognised in either period other than the profit or loss for that period.

The accompanying notes form an integral part of this profit and loss account.

Balance Sheet

	Notes	30 September 2001	31 March 2001
		£'000	£'000
Fixed assets			
Tangible assets	9	302	371
Investments	10	2,263	2,263
		2,565	2,634
Current assets			
Stocks	11	2,607	1,945
Debtors due within one year	12	5,923	7,926
Cash at bank and in hand		2,488	1,235
		11,018	11,106
Creditors: Amounts falling due within one year	13	9,921	11,158
Net current assets (liabilities)		1,097	(52)
Total assets less current liabilities		3,662	2,582
Capital and reserves			
Called-up share capital	17	2,700	2,700
Share premium account	19	1,670	1,670
Profit and loss account	19	(708)	(2,613)
Preference dividend reserve	19	-	825
Shareholders' funds		3,662	2,582
Shareholders' funds may be analysed as:			
Equity interests		1,162	(743)
Non-equity interests		2,500	3,325
		3,662	2,582

The statutory accounts on pages 6 to 19 were approved by the board of directors on 30 October 2002 and signed on its behalf by:

Director
30 October 2002

The accompanying notes form an integral part of this balance sheet.

Notes to the Accounts
30 September 2001

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and the preceding year.

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Basis of consolidation

The Company has taken advantage of the exemption offered in Financial Reporting Standard No. 2 "Accounting for Subsidiary Undertakings" not to consolidate the results of its two subsidiary companies. The company itself is a wholly-owned subsidiary undertaking and its immediate parent undertaking is incorporated in Germany (thus established under the law of a member state of the European Community). The company also complies with the conditions set out in section 228(2) of the Companies Act, which provides exemption for parent companies that are included in accounts of a larger group.

c) Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and sales-related taxes. Sales of goods are recognised as at the date of shipment. Service related sales are recognised when the related work is performed or, in the case of term contracts, evenly over the life of such term contracts.

d) Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Plant and equipment	3-10 years
Motor vehicles	4-5 years
Fixtures and fittings	4-10 years

No value is ascribed to patents, trademarks, know-how and printed circuit artwork.

e) Government grants

Government grants are treated as deferred income and are credited to the profit and loss account as the related expenditure is incurred.

f) Stocks

Stocks are stated at the lower of cost and estimated net realisable value. Parts and components are stated at cost on a first in, first out, basis. In the case of finished goods and work in progress, cost includes direct materials and labour plus an appropriate proportion of manufacturing overheads. Provision is made for obsolete, slow-moving or defective items where appropriate.

g) Cash Flow Statement

The Company has taken advantage of the exemption offered in Financial Reporting Standard No.1 (Revised) "Cash Flow Statements," not to present a cash flow statement because it is a wholly owned subsidiary undertaking where the ultimate parent company produces consolidated accounts that are publicly available.

Notes to the Accounts (continued)

1 Accounting policies (continued)

h) Installation, warranty and customer training costs

Estimated future costs of installation, warranty and customer training which are anticipated to arise on instrument system sales are charged to the profit and loss account as the revenues on the related instrument system sales are recognised.

i) Research and development

Expenditure on research and development is written off as incurred.

j) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the taxation rate at which it is anticipated the timing differences will reverse.

k) Foreign currencies

Transactions of UK companies denominated in foreign currencies are translated into sterling at the rates ruling at the dates of transactions. Amounts receivable and payable in foreign currencies at the balance sheet date are translated at the rules ruling at that date. All exchange differences thus arising are reported in the profit and loss account.

l) Leases

Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

m) Pension costs

Pension costs are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the company. Differences between the amounts charged to the profit and loss account and the amounts funded are treated as either provisions or prepayments in the balance sheet. The company does not provide any other post-retirement benefits.

n) Investments

Fixed asset investments are stated at cost less any provision for impairment.

Notes to the Accounts (continued)

2 Turnover

All the company's turnover derives from the company's principal activity.

Disclosure of the analysis of turnover between geographic markets is not given in these accounts as, in the opinion of the directors, it would be seriously prejudicial to the interests of the company.

3 Operating costs

	Six month period ended 30 September 2001	Year ended 31 March 2001
	£'000	£'000
Change in stocks of finished goods and work in progress	(4,186)	(7,212)
Purchase of raw materials, parts, components and consumables	(429)	(893)
Staff costs		
- wages and salaries	(1,138)	(2,253)
- social security costs	(122)	(251)
- other pension costs	(105)	(203)
Depreciation of owned tangible fixed assets	(80)	(200)
	(6,060)	(11,012)
Operating lease rentals		
- rental of land and buildings	(2)	(4)
- hire of plant and equipment	(1)	(3)
- other operating leases	(38)	(72)
Auditors' remuneration for audit services	(28)	(30)
Amount written off investments	-	(3,238)
Other operating charges	(1,066)	(1,105)
Gain on foreign currency translation	6	-
	(1,129)	(4,452)
	(7,189)	(15,464)

No remuneration was made to the auditors in respect of non-audit services for the company (year to 31 March 2001: £29,625.)

Notes to the Accounts (continued)

4 Directors' emoluments

There are no directors' emoluments during the period (year to 31 March 2001: nil).
No directors were members of pension schemes during the period (year to 31 March 2001: nil).

5 Staff numbers

The average monthly number of persons employed by the company, including executive directors, was as follows:

	Six month period ended 30 September 2001	Year ended 31 March 2001
	Number	Number
Production	31	30
Marketing and selling	2	2
Service and spares	29	29
Research and development	17	17
Administration	8	8
	87	86

6 Net interest payable

	Six month period ended 30 September 2001	Year ended 31 March 2001
	£'000	£'000
Interest payable		
- Loans from shareholders	151	486
- Other	16	41
	167	527
Bank interest receivable	(21)	(26)
Net interest payable	146	501

Notes to the Accounts (continued)

7 Tax on profit (loss) on ordinary activities

	Six month period ended 30 September 2001	Year ended 31 March 2001
	£'000	£'000
Adjustment in respect of prior years	-	19
Corporation Tax	(491)	-
	(491)	19

8 Preference dividend payable on non-equity shares

	Six month period ended 30 September 2001	Year ended 31 March 2001
	£'000	£'000
Preference dividend accrued at 6p per preference share	-	150

At 31 March 2001, 66 months of outstanding preference dividends amounting to £825,000 were in arrears due to the previous adverse balance on the profit and loss account of the company (2000: 54 months amounting to £675,000). On 1 April 2001, the directors resolved to declare the payment of a preferential dividend on the preference shares amounting to £825,000. This covered the full amount of accumulated but unpaid dividends arising on the preference shares as of 31 March 2001.

The preference shareholder, Carl Zeiss BV waived its right to receive the first preferential dividend payment of £412,500 so as to retain the profits in the company. On 1 April 2001 the directors resolved to accept this waiver of dividend (see note 19.)

9 Tangible assets

	Plant and Equipment £'000	Fixtures & Fittings £'000	Total £'000
Cost			
At 1 April 2001	971	78	1,049
Additions	14	-	14
Disposals	(62)	-	(62)
At 30 September 2001	923	78	1,001
Depreciation			
At 1 April 2001	637	41	678
Charge for the period	72	9	81
Disposals	(60)	-	(60)
At 30 September 2001	649	50	699
Net book value			
At 30 September 2001	274	28	302
At 31 March 2001	334	37	371

10 Fixed asset investments

	Subsidiary undertakings £'000
Cost	
At 1 April 2001	5,501
Disposals	(3,238)
At 30 September 2001	2,263
Provision for impairment	
At 1 April 2001	3,238
Disposals	(3,238)
At 30 September 2001	-
Net book value	
At 30 September 2001	2,263
At 31 March 2001	2,263

The subsidiary undertakings at 30 September 2001 were:

Name of company	Country of registration (or incorporation) and operation	Holding	Shareholding Percentage
LEO Electron Microscopy Inc	USA	Common stock	100%
LEO Microscopie Electronique SARL	France	Shares	100%

The nature of the business of both subsidiary undertakings was the same as the principal activity of the group. On 10 July 2001 the Company sold its entire 100% interest in LEO Elektronenmikroskopie GmbH for £1.

11 Stocks

	30 September 2001 £'000	31 March 2001 £'000
Parts and components	1,791	1,141
Work in progress	671	283
Finished goods	145	521
	2,607	1,945

Notes to the Accounts (continued)

12 Debtors due within one year

	30 September 2001	31 March 2001
	£'000	£'000
Trade debtors	2,930	2,372
Amounts owed by subsidiary undertakings	2,467	5,008
Other debtors	462	400
Prepayments and accrued income	64	146
	5,923	7,926

13 Creditors: Amounts falling due within one year

	30 September 2001	31 March 2001
	£'000	£'000
Payments received on account	149	176
Subordinated loan notes	-	1,176
Short-term loans from shareholders	4,287	3,563
Trade creditors	799	1,191
Amounts owed to subsidiary undertakings	1,915	2,878
Corporation tax	487	-
Taxation and social security	157	77
Other creditors	12	3
Accruals and deferred income	2,115	2,094
	9,921	11,158

Notes to the Accounts (continued)

14 Shareholders' subordinated loan notes

The shareholders' subordinated loan notes comprised unsecured subordinated loan notes which were repayable by instalments over a period within five years. These notes were issued as consideration for businesses acquired. The loan notes were denominated in sterling, German marks, US dollars and French francs (sterling only for the company) and bore interest at a rate determined in arrears of 2.5% over LIBOR for each of the respective currencies. Amounts fall due as follows:

	30 September 2001	31 March 2001
	£'000	£'000
Within one year	-	1,176
Total amount payable	-	1,176

An analysis of the movements in loan note balances is as follows:

	30 September 2001	31 March 2001
	£'000	£'000
Brought forward	1,176	1,961
Repayment of loan notes	(1,176)	(785)
Carried forward	0	1,176

Notes to the Accounts (continued)

15 Pensions

Over the period 1 April 2001 to 30 September 2001, the Company operated the following pension schemes in the UK:

LEO GPP
The LEO Pension Scheme

The LEO Pension Scheme is a defined benefit scheme. The scheme is closed to new entrants. A full actuarial valuation was carried out as at 1 April 1999 and updated to 30 September 2001 by a qualified independent actuary.

The major financial assumptions used by the actuary were:

	30 September 2001
Discount rate	6.00%
Rate of increase in salaries	4.00%
Rate of increase of pensions in payment	2.50%
Inflation assumption	2.50%

The assets in the scheme and the expected rate of return at 30 September 2001 were:

	Long term rate of return expected at: 30 September 2001	30 September 2001
		£'000
Equities	7.40%	5,781
Bonds	5.50%	1,359
Cash	4.75%	362

	30 September 2001
	£'000
Total fair value of assets	7,502
Present value of Scheme liabilities	8,552
Deficit in Scheme	(1,050)
Related deferred tax liability	-
Net Pension Liability	(1,050)

Notes to the Accounts (continued)

16 Deferred taxation

At 30 September 2001, there are no potential liabilities in respect of deferred taxation although the company had brought forward trading losses, available for offset against future taxable profits.

17 Called-up share capital

The authorised, allotted, called-up and fully paid share capital of the company was:

	30 September 2001	31 March 2001
	£'000	£'000
100,000 'A' ordinary shares of £1 each	100	100
100,000 'B' ordinary shares of £1 each	100	100
2,500,000 preference shares of £1 each	2,500	2,500
	2,700	2,700

The preference shares carry a cumulative preferential right to dividends at a rate of 6% net of taxation per annum. They are immediately redeemable at par, subject to the provisions of the Companies Acts, if, and only if, all the holders of the preference shares and the company so agree. The preference shares carry no rights to attend or vote at general meetings of the company.

The 'A' ordinary shares and the 'B' ordinary shares have equal rights to dividends, but first subject to the rights of the preference shares. The 'A' ordinary shares and the 'B' ordinary shares carry rights to appoint and remove respective 'A' and 'B' directors, there being no more than three directors of each class at any one time.

On a winding-up of the company the preference shares have first priority of distribution of its net assets up to their aggregate par value plus any accrued dividends. Thereafter any balance is payable rateably amongst the holders of the 'A' and 'B' ordinary shares.

On 17 December 2001, the company redesignated the 'A' ordinary shares, 'B' ordinary shares and preference shares into ordinary shares in the capital of the company to rank in all respects pari passu.

18 Sale of subsidiary undertaking

On 10 July 2001 the company sold its 100% interest in the ordinary share capital of Leo Elektronemikroskopie GmbH for consideration of £1. No profits or losses arose on the sale. The pre-disposal results of Leo Elektronemikroskopie GmbH are not consolidated into these company accounts (see note 1). On the same date, the disposed subsidiary, Leo Elektronemikroskopie GmbH, became the immediate parent company of Leo Electron Microscopy Limited (see note 23.)

Notes to the Accounts (continued)

19 Reserves

	Notes	Share Premium account £'000	Profit and loss account £'000	Preference dividend reserve £'000
At 1 April 2001		1,670	(2,613)	825
Retained profit for the period		-	1,493	-
Preference dividend paid		-	-	(413)
Transfer to profit and loss reserves of waived preference dividend	8	-	412	(412)
At 30 September 2001		1,670	(708)	-

The Company has adopted the transitional provisions of Financial Reporting Standard 17 ("FRS 17"). Had FRS 17 been implemented in full during the period, the profit and loss reserve would be as follows:

	Six month period ended 30 September 2001 £'000
Profit and loss reserve excluding pension liability	(708)
Pension reserve	(1,050)
Profit and loss reserve	(1,758)

20 Reconciliation of movements in shareholders' funds

	Notes	Six month period ended 30 September 2001 £'000	Year ended 31 March 2001 £'000
Profit (loss) for the financial year		1,493	(266)
		1,493	(266)
Preference dividend (paid) accrued	8	-	150
Preference dividend paid	19	(413)	-
Net increase (decrease) in shareholders' funds		1,080	(116)
Shareholders' funds brought forward		2,582	2,698
Shareholders' funds carried forward		3,662	2,582

Notes to the Accounts (continued)

21 Commitments

At 30 September 2001 there were capital commitments as follows:

	30 September £'000	31 March 2001 £'000
Contracted but not provided for	21	19

At 31 September 2001 there were annual commitments under operating leases which expire as follows:

	30 September £'000	31 March 2001 £'000
Land and buildings		
- within one year	125	-
- in one to five years	-	111
Other assets		
- within one year	16	7
- in one to five years	39	57
	180	175

22 Related party transactions

As a wholly owned subsidiary undertaking of Carl-Zeiss-Stiftung GmbH, the company has taken advantage of the exemption in Financial Reporting Standard No. 8, "Related party disclosures", from disclosing transactions with other members of the group headed by Carl-Zeiss-Stiftung GmbH, the company's ultimate parent undertaking.

There were no transactions with other related parties in the period.

23 Ultimate controlling party

The Company's immediate parent undertaking is Leo Elektronemikroskopie GmbH, a company incorporated in Germany. The Company's ultimate parent undertaking is Carl-Zeiss-Stiftung GmbH which is also incorporated in Germany. Copies of the accounts of Leo Elektronemikroskopie GmbH are available from D-73447, Oberkochen, Germany. Copies of the accounts of Carl-Zeiss-Stiftung are available from Carl-Zeiss-Strasse 22, 73447 Oberkochen, Germany.